

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
regarding the regulatory reviews, revisions,)	
determinations, and/or approvals necessary for)	Case No. U-18333
INDIANA MICHIGAN POWER COMPANY to fully)	
comply with Public Act 295 of 2008.)	
_____)	

At the February 22, 2018 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING PARTIAL SETTLEMENT AGREEMENT

On May 1, 2017, Indiana Michigan Power Company (I&M) filed an application, with supporting testimony and exhibits, requesting approval of its 2016 energy optimization (EO) reconciliation and authority to implement revised EO surcharges. I&M also filed its 2016 EO annual report with its application.

Prehearing conferences were held on June 27, August 8, and October 30, 2017, before Administrative Law Judge Mark D. Eyster. I&M and the Commission Staff (Staff) participated in the proceedings. Following the prehearing conferences and the Staff's financial audit of I&M's EO revenues and EO program costs, the parties submitted a partial settlement agreement, attached as Exhibit A. The parties intend that the partial settlement agreement resolves all issues in the case

except for the net lost revenue issues that will be addressed in Case Nos. U-17283 and U-17603, which the Court of Appeals remanded for further proceedings.

The Commission has reviewed the partial settlement agreement and finds that the public interest is adequately represented by the parties who entered into the partial settlement agreement. The Commission further finds that the partial settlement agreement is in the public interest, represents a fair and reasonable resolution of the proceeding, and should be approved.

THEREFORE, IT IS ORDERED that:

- A. The partial settlement agreement, attached as Exhibit A, is approved.
- B. Indiana Michigan Power Company's reconciliation for the 2016 energy optimization plan year, the adjusted financial incentive, and the associated proposed tariffs, attached as Attachment C to the settlement agreement, are approved.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel.

Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of February 22, 2018.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
regarding the regulatory reviews, revisions,)	
determinations, and/or approvals necessary for)	Case No. U-18333
INDIANA MICHIGAN POWER COMPANY to)	
fully comply with Public Act 295 of 2008)	

PARTIAL SETTLEMENT AGREEMENT

Pursuant to Section 78 of the Administrative Procedures Act of 1969 as amended (1969 PA 306, § 78; MCL 24.278) (the "APA"), and Rule 431 of the Rules of the Practice and Procedure Before the Commission, R. 792.10431, Indiana Michigan Power Company ("I&M" or the "Company") and the Michigan Public Service Commission ("Commission") Staff ("Staff"), hereby agree as follows:

1. In Case No. U-17773, I&M filed an application, testimony, and exhibits seeking approval to continue to self-administer its Energy Optimization ("EO") Plan for 2016 and 2017. I&M and Staff submitted a settlement agreement resolving all issues in the case. On April 14, 2016, the Commission issued its Order approving I&M's 2016-2017 EO Plan and approving a financial incentive mechanism which establishes an annual incentive amount based upon the Company's performance. The Commission also authorized I&M to recover its EO Plan costs.

2. During 2016, I&M implemented and operated its approved EO Plan which included (1) energy savings targets established by PA 295; (2) EO Plan offerings for each customer class; (3) specific funding levels; and (4) reasonable and effective administration of the EO Plan programs. I&M acknowledges that the 2016 low income EWR program was unsuccessful in meeting the incentive mechanism goals as outlined

in U-17773. In U-18263, I&M is proactively working to revitalize the low income program to meet new program goals. I&M acknowledges the importance, to the Commission and the citizens of the State of Michigan, of a viable low income EWR program. In this reconciliation the total award possible for the Company was reduced by \$91,437 for the low income component. The result is a financial incentive award of \$579,101.

3. During 2016, I&M's EO Plan achieved compliance with the legislative requirements of PA 295. In addition, I&M earned a financial incentive based upon the individual metrics which met or exceeded the specified levels approved by the Commission's April 14, 2016 Order in Case No. U-17773.

4. On May 1, 2017, I&M filed with the Commission an Application that includes the testimony and exhibits of Jennifer Duncan, Christopher Halsey, and Jon Walter, asking the Commission to: (a) authorize I&M to roll in the actual 2016 cumulative under-recovery of \$1,057,033 (including carrying charges); (b) approve I&M's reconciliation for the 2016 EO Plan year, the financial incentive, and the associated proposed tariffs; (c) approve I&M's 2016 deferred regulatory asset balance for the EECO program of \$172,113; (d) authorize I&M to renew its CNLR tracker and to create a regulatory asset for net lost revenues and associated carrying charges realized during 2016 and for future periods through the conclusion of I&M's appeal from the Commission's Opinion and Order in Case No. U-17283; and (e) approve as reasonable the proposed revised rates for I&M's EO Surcharge Rider as reflected in I&M's testimony and exhibits and effective for bills rendered beginning with the first billing

cycle of January 2018 (December 29, 2017) or for bills rendered beginning with the first billing cycle of the month following a Commission Order, whichever is later.

5. On June 27, 2017, a prehearing conference was held pursuant to the Commission's Notice of Hearing. The prehearing conference was conducted as a contested case matter pursuant to the APA. At the prehearing conference, the Company presented proof of service of the Notice of Hearing on all cities, incorporated villages, townships, and counties in its service area, and all intervenors in Case No. U-18022. The Company also presented an affidavit evidencing the requisite publication of notice and a proof of service evidencing the requisite mailings. Staff and the Company participated in the proceedings and there were no intervenors.

6. On August 8, 2017, a second prehearing conference was held, setting a schedule for Case No. U-18333.

7. Staff conducted a financial audit of the Company's EO revenues and EO Program Costs. Staff's analyzed the reported over/(under) recover account balance, and ending general ledger balances for multiple individual EO program accounts. Staff also investigated the calculation of carrying costs on the uncollected incentive award from program year 2015 and the to-be-decided incentive payment for program year 2016. The surcharge collection was compared to the planned collection and found to be compliant. A random sample of individual customer's bills was requested and the surcharges stated on the bills matched the corresponding rate sheets. The energy savings reported by the external auditor were found to be satisfactory. The utility is meeting the statutory savings and UCT score required by the Act.

8. The parties have had extensive discussions, and have agreed to enter into this Settlement Agreement. In view of the foregoing, and pursuant to Section 78 of the APA (MCL 24.278), the Company and Staff hereby stipulate and agree as follows:

- a. The Commission should find that the Company has complied with the legislative requirements of 2008 PA 295 for the 2016 EO Plan year.
- b. The Commission should approve the Company's reconciliation for the 2016 EO Plan year, the adjusted financial incentive, and the associated proposed tariffs.
- c. The Company's testimony and exhibits demonstrate that I&M implemented its EO plan during 2016 and met the goals and objectives to earn the approved performance incentive. Accordingly, I&M should also be authorized to collect revenue for the financial incentive performance award of \$579,101 for the 2016 EO Plan year, See, Attachment A. For administrative simplicity, the parties agree that I&M should be authorized to roll into the EO surcharges the volumetric surcharge related to the incentive award. With respect to the financial incentive earned by the Company, the parties agree that carrying costs will not be applied to the over/under balance.
- d. I&M continues to defer as a regulatory asset the carrying cost, depreciation expense, and ongoing incremental O&M costs associated with the EECO program capital expenditures for

recovery in I&M's next base rate proceeding in accordance with the Commission's Order in Case No. U-17283. Based on the Company's filing, the Commission should approve I&M's deferred regulatory asset balance for the EECO program of \$172,113.

- e. In regard to the issues involving I&M's requests in this case for recovery of NLR, the parties acknowledge the Commission's September 28, 2017 Order on Remand directed the parties to address in this case the issues on remand from the Court of Appeals decision *In re Application of Indiana Michigan Power Company to Reconcile Costs*, unpublished opinion per curiam of the Court of Appeals issued November 29, 2016 (Docket Nos. 326405 and 327716), the Court remanded Case Nos. U-17283 and U-17603 for further proceedings. The parties intend that this Settlement Agreement resolve all issues in this case except those NLR issues to be addressed on remand.
- f. The parties agree to accrue carrying charges on the over/under balance excluding I&M's financial incentive. The parties agree to the revised 2016 cumulative Year End under-recovery of \$1,044,288, comprised of a \$693,235 over-recovered balance associated with program costs (including carrying charges) and a \$1,737,523 under-recovered balance associated with I&M's cumulative earned financial incentive as of December 31, 2016 as set forth in Attachment B. The Commission should approve as

reasonable the revised rates for I&M's EO Surcharge Rider as reflected in this settlement agreement, effective for bills rendered beginning with the first billing cycle of January 2018 (December 29, 2017) or for bills rendered beginning with the first billing cycle of the month following a Commission Order, whichever is later as set forth in Attachment C.

9. All the signatories are of the opinion that this Settlement Agreement is reasonable, in the public interest, and will aid in the expeditious conclusion of this case only.

10. The parties respectfully request that the Commission promptly issue an order accepting and approving this Settlement Agreement. If the Commission issues an order accepting and adopting the Settlement Agreement without modification, no party will appeal, challenge, or contest the Commission's Order accepting and approving this Settlement Agreement. If the Commission does not accept and approve this Settlement Agreement without modification, this Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

11. This Settlement Agreement has been made for the sole and express purpose of reaching compromise among the positions of the signatory parties in Case No. U-18333 without prejudice to their rights to take new and/or different positions in other proceedings. If the Commission approves this settlement agreement without modification, neither the parties to this settlement agreement nor the Commission shall make any reference to or use the settlement agreement or the order approving it as a

reason, authority, rationale, or example for taking any action or position or making any subsequent decision in this case or any other cases or proceedings; provided, however, such reference or use may be made to enforce the settlement agreement and order.

12. The Company and Staff jointly recommend that the Commission issue an Order Adopting Settlement Agreement.

13. The stipulations and agreements contained in this Settlement Agreement shall constitute the record needed to support the Commission order in this case.

14. Section 81 of the APA (MCL 24.281) is waived.



Dated: January __, 2018

Michael J. Orris (P51232)
MICHIGAN PUBLIC SERVICE COMMISSION
COMMISSION STAFF
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Richard J.
Aaron

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Dated: January 11, 2018

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Attachment A

Program Revenue & Cost (Over)/Under														
	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	YTD Total
2016 EO Program Revenue		\$ 417,020	\$ 407,124	\$ 375,884	\$ 336,932	\$ 295,324	\$ 311,027	\$ 332,661	\$ 350,842	\$ 338,301	\$ 299,721	\$ 291,607	\$ 308,374	\$ 4,064,818
2016 Program Costs		\$ 200,379	\$ 147,494	\$ 244,739	\$ 214,091	\$ 299,920	\$ 291,500	\$ 282,177	\$ 223,957	\$ 323,892	\$ 405,567	\$ 304,940	\$ 1,046,296	\$ 3,984,941
Program (Over) / Under Collected		\$ (216,641)	\$ (259,631)	\$ (131,145)	\$ (122,841)	\$ 4,595	\$ (19,528)	\$ (50,484)	\$ (126,885)	\$ (14,419)	\$ 105,846	\$ 13,332	\$ 737,922	\$ (79,877)
Program (Over) / Under Cumulative	(598,801.93)	\$ (815,443)	\$ (1,075,074)	\$ (1,206,219)	\$ (1,329,060)	\$ (1,324,465)	\$ (1,343,992)	\$ (1,394,476)	\$ (1,521,361)	\$ (1,535,780)	\$ (1,429,934)	\$ (1,416,601)	\$ (678,679)	
Carrying Costs on Program (Over)/Under Balance:														
Weighted Average Cost of Short Term Debt		0.7196%	0.7190%	0.7529%	0.7572%	0.7541%	0.7918%	0.8646%	0.8902%	0.8767%	0.8829%	0.8784%	0.9716%	
Carrying Costs Revenue Collected		\$ -	\$ -	\$ -	\$ -	\$ 236	\$ 249	\$ 266	\$ 281	\$ 271	\$ 240	\$ 233	\$ 247	\$ 2,023
Carrying Costs Costs		\$ (359)	\$ (489)	\$ (675)	\$ (761)	\$ (835)	\$ (874)	\$ (968)	\$ (1,034)	\$ (1,111)	\$ (1,130)	\$ (1,047)	\$ (1,147)	\$ (10,430)
Carrying Costs (Over) / Under Collected		\$ (359)	\$ (489)	\$ (675)	\$ (761)	\$ (1,071)	\$ (1,123)	\$ (1,234)	\$ (1,315)	\$ (1,382)	\$ (1,370)	\$ (1,280)	\$ (1,394)	\$ (12,453)
Carrying Costs (Over) / Under Cumulative	\$ (2,103)	\$ (2,462)	\$ (2,951)	\$ (3,626)	\$ (4,387)	\$ (5,458)	\$ (6,581)	\$ (7,815)	\$ (9,130)	\$ (10,512)	\$ (11,882)	\$ (13,162)	\$ (14,556)	
2016 Program Cost Cumulative (Over) / Under Balance including Carrying Costs \$ (693,235)														
Deferral of EO Financial Incentives, (Over)/Under:														
Revenue Collected		\$ -	\$ -	\$ -	\$ -	\$ 19,549	\$ 20,589	\$ 22,021	\$ 23,225	\$ 22,394	\$ 19,840	\$ 19,303	\$ 20,413	\$ 167,335
2016 Earned Financial Incentive		\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 48,258	\$ 579,101
Cumulative (Over)/Under Balance	\$ 1,325,757	\$ 1,374,015	\$ 1,422,274	\$ 1,470,532	\$ 1,518,791	\$ 1,547,500	\$ 1,575,169	\$ 1,601,407	\$ 1,626,440	\$ 1,652,305	\$ 1,680,723	\$ 1,709,678	\$ 1,737,523	\$ 1,737,523

Attachment B

Indiana Michigan Power
EO Plan
2016 Revenue Requirement Summary

Exhibit IM-9 (CMH-1) Revised
Case No. U-18333
Witness Halsey
Page 1 of 1

Line #	
1	Cumulative Year End 2016 Earned Financial Incentive (Over) / Under Balance
2	Cumulative Year End 2016 Program Costs (Over) / Under Balance
3	Cumulative Year End 2016 Carrying Costs on Program Costs
4	Cumulative Year End 2016 EO Plan Costs

Source:	
Exhibit IM-10 (CMH-2) Revised	\$ 1,737,523
Exhibit IM-10 (CMH-2) Revised	\$ (678,679)
Exhibit IM-10 (CMH-2) Revised	\$ (14,556)
Equals Line 1 plus Line 2 plus Line 3	\$ 1,044,288

Attachment C

**M.P.S.C. 15- ELECTRIC
INDIANA MICHIGAN POWER COMPANY
STATE OF MICHIGAN
(EO CASE U-18333)**

**EIGHTH REVISED SHEET NO. D-112.00
CANCELS SEVENTH REVISED SHEET NO. D-112.00**

**SURCHARGE RIDER EO
(ENERGY OPTIMIZATION SURCHARGE RIDER)**

Energy Optimization surcharges allow for the recovery of costs of implementing and conducting an approved energy optimization plan.

Energy Optimization surcharges shall be revised annually in accordance with Sections 89(3) and 89(7) of 2008 PA 295.

All customer bills subject to the provisions of this rider, including any bills rendered under special contract, shall be adjusted by the Energy Optimization Surcharge Rider per kWh or Customer as follows:

Tariff	¢/kWh	\$/Customer/Mo.
RS, RS-TOD, RS-TOD2, RS-OPES/PEV, and RS-SC	0.222	
SGS, SGS-TOD2		7.17
SGS (UNMETERED)	0.142	
MGS and MGS-TOD		7.17
LGS		534.14
LP		534.14
MS		7.17
WSS		7.17
CS-IRP		534.14
RTP		534.14
EHS		7.17
EHG		7.17
IS		7.17
OSL (UNMETERED)	0.142	
SLS, SLC AND ECLS (UNMETERED)	0.142	
SLCM		7.17

**ISSUED
BY TOBY L. THOMAS
PRESIDENT
FORT WAYNE, INDIANA**

**EFFECTIVE FOR BILLS RENDERED BEGINNING
WITH THE BILLING MONTH OF**

**ISSUED UNDER AUTHORITY OF THE
MICHIGAN PUBLIC SERVICE COMMISSION
DATED
IN CASE NO. U-18333**

M.P.S.C. 15- ELECTRIC
INDIANA MICHIGAN POWER COMPANY
STATE OF MICHIGAN
(EO CASE ~~U-18022~~U-18333)

~~SEVENTH EIGHTH~~ REVISED SHEET NO. D-112.00
CANCELS ~~SIXTH~~SEVENTH REVISED SHEET NO. D-112.00

**SURCHARGE RIDER EO
(ENERGY OPTIMIZATION SURCHARGE RIDER)**

Energy Optimization surcharges allow for the recovery of costs of implementing and conducting an approved energy optimization plan.

Energy Optimization surcharges shall be revised annually in accordance with Sections 89(3) and 89(7) of 2008 PA 295.

All customer bills subject to the provisions of this rider, including any bills rendered under special contract, shall be adjusted by the Energy Optimization Surcharge Rider per kWh or Customer as follows:

Tariff	¢/kWh	\$/Customer/Mo.
RS, RS-TOD, RS-TOD2, RS-OPES/PEV, and RS-SC	0.20 <u>0.222</u>	
SGS, SGS-TOD2		6.527 <u>17</u>
SGS (UNMETERED)	0.124 <u>0.142</u>	
MGS and MGS-TOD		6.527 <u>17</u>
LGS		526.135 <u>34.14</u>
LP		526.135 <u>34.14</u>
MS		6.527 <u>17</u>
WSS		6.527 <u>17</u>
CS-IRP		526.135 <u>34.14</u>
RTP		526.135 <u>34.14</u>
EHS		6.527 <u>17</u>
EHG		6.527 <u>17</u>
IS		6.527 <u>17</u>
OSL (UNMETERED)	0.124 <u>0.142</u>	
SLS, SLC AND ECLS (UNMETERED)	0.124 <u>0.142</u>	
SLCM		6.527 <u>17</u>

ISSUED ~~DECEMBER 8, 2016~~
BY ~~PAUL CHODAK III~~TOBY L. THOMAS
PRESIDENT
FORT WAYNE, INDIANA

EFFECTIVE FOR BILLS RENDERED BEGINNING
WITH THE BILLING MONTH OF ~~JANUARY 2017~~

ISSUED UNDER AUTHORITY OF THE
MICHIGAN PUBLIC SERVICE COMMISSION
DATED ~~NOVEMBER 22, 2016~~
IN CASE NO. ~~U-18022~~U-18333